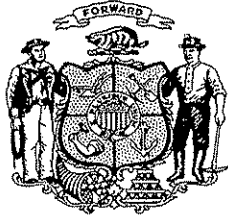


# STATE OF WISCONSIN

SENATE CHAIR  
**MARK MILLER**

317 East, State Capitol  
P.O. Box 7882  
Madison, WI 53707-7882  
Phone: (608) 266-9170



ASSEMBLY CHAIR  
**MARK POCAN**

309 East, State Capitol  
P.O. Box 8952  
Madison, WI 53708-8952  
Phone: (608) 266-8570

## JOINT COMMITTEE ON FINANCE

### MEMORANDUM

To: Members  
Joint Committee on Finance

From: Senator Mark Miller  
Representative Mark Pocan

Date: February 25, 2010

Re: Department of Revenue Report on Lottery Sales and Prize Payout

Attached is a report on lottery sales and prize payout from the Department of Revenue, pursuant to s. 565.02(7), Stats.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

MM:MP;jm



*James Doyle*  
Governor

## State of Wisconsin • DEPARTMENT OF REVENUE

2135 RIMROCK ROAD • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8941  
PHONE (608) 266-6466 • FAX (608) 266-5718 • <http://www.dor.state.wi.us>

*Roger M. Ervin*  
Secretary of Revenue

February 25, 2010

The Honorable Mark Miller, Co-Chair  
Member, Joint Committee on Finance  
317 East, State Capitol  
Madison, WI 53708

The Honorable Mark Pocan, Co-Chair  
Member, Joint Committee on Finance  
309 East, State Capitol  
Madison, WI 53708

Dear Senator Miller and Representative Pocan:

Section 565.02(7), Wis. Stats., requires a report to the Joint Committee on Finance every March 1, containing the following information:

- A. An estimate of lottery ticket sales and prize payment for the current and subsequent fiscal year;
- B. The prize payout percentages for each type of lottery game offered; and
- C. The Lottery's evaluation of the impact that prize payout ratios are likely to have upon ticket sales and operating costs, and upon the Lottery's constitutionally mandated mission to maximize revenue for property tax relief in Wisconsin.

The report, which is attached, recommends slight changes to prize payouts. The Lottery projects a prize payout of 58.80% for FY 10 and a payout of 58.75% for FY 11.

Please feel free to contact me should you have any questions.

Sincerely,

Roger M. Ervin  
Secretary of Revenue

Enclosure

# Lottery Sales and Prize Payout

## Report to the Joint Committee on Finance

Wisconsin Department of Revenue  
Lottery Division

February 25, 2010



## EXECUTIVE SUMMARY 2010

The mission of the Wisconsin Lottery is to provide the greatest possible property tax relief to Wisconsin homeowners by offering entertaining games while operating with security, integrity and social responsibility. Since its inception, the Lottery has generated \$2.89 billion in property tax relief for Wisconsin homeowners, \$542 million in commissions for Wisconsin businesses and over \$5.2 billion in prizes for players.

In accordance with sec. 565.02(7), Wis. Stats., the Department of Revenue, Lottery Division, submits this report, detailing the following:

- An estimate of lottery ticket sales and prize payment for the current and subsequent fiscal year.
- The prize payout percentages for each type of lottery game offered.
- The Lottery's evaluation of the impact that prize payout ratios are likely to have upon ticket sales and operating costs, and upon the Lottery's constitutionally-mandated mission to maximize revenue for property tax relief in Wisconsin.

In Fiscal Year 2009 the Wisconsin Lottery had sales of \$473.4 million. Sales declined from the previous year, in large part due to the economic downturn.

The conventional wisdom is that lottery sales increase during an economic downturn as people look to change their fortunes overnight. However, the current economic recession has made a myth of the conventional wisdom, as Lottery sales have been impacted, although not as much as other sectors of the economy.<sup>1</sup> While not recession-proof, the Lottery appears recession-resistant; its sales outlook and its ability to generate funds for property tax relief remains strong.

### Sales Overview

Fiscal Year 2010. The Lottery projects that gross revenues will increase 1.2% in FY 10 to \$479.4 million.<sup>2</sup>

Fiscal Year 2011. Slow growth is projected for FY 11. Gross Revenues are projected to reach \$481.9 million.

The Lottery is engaged in a long-term growth strategy for instant scratch sales by meeting consumer demand for more games at higher price points. Recently, some instant scratch sales have shifted from the \$20 to the \$10 price point, but continue to be strong for tickets priced at \$5 and higher.

The most significant factor affecting Lottery lotto game<sup>3</sup> sales is the frequency of large jackpots for the multi-state Powerball game. Jackpot game sales are notoriously difficult to sustain over time—

<sup>1</sup> Lottery sales were up 1% as of the end of January 2010.

<sup>2</sup> This is the amount certified in October 2009 for the purpose of establishing the Lottery Property Tax Credit. The Lottery launched the multi-state Mega Millions jackpot game on January 31, 2010. This game has the potential to positively impact sales, but given that there is no sales data for markets with two large jackpot games and the unpredictable nature of jackpot runs (which drive sales), the Lottery has chosen to use the sales amount certified in October 2009.

<sup>3</sup> Lotto games are games in which tickets are produced from a retailer's terminal (e.g. Powerball, Badger 5). The Internet has made the use of the historical term "on-line" in reference to lottery games confusing, as some believe the games are available via the Internet. Hence, the change to "lotto".



even one year to the next—because of the random occurrence of these jackpots. A range can be established to forecast future performance based upon past performance, but that range is broad, and jackpot game sales from year to year can be tens of millions of dollars different from estimates.

The Lottery continues to maintain sales of its daily lotto games by developing strategic, short-term enhancements to them. The Lottery has observed a positive sales “halo effect” from limited time offers and anticipates stable sales in daily lotto games as a result.

### Prize Payout Ratios

The prize payout percentage is the amount of Lottery revenue that is returned to players in the form of prizes. Each individual game has a unique prize structure that represents the number and value of its prizes and the odds of winning those prizes. In FY 09 the prize payout ratio was 59.12%. Wisconsin prize payouts are below the national average. In FY 08 the Lottery’s prize payout ratio was 57.95%; the national average was 58.84%.<sup>4</sup>

Fiscal Year 2010. The Lottery expects to pay \$281.9 million in prizes. Total prize payout for all Lottery games is projected to be 58.80%.

Fiscal Year 2011. With increased sales projected, the Lottery expects to pay \$283.1 million in prizes. Total prize payout is projected to be 58.75%.

### Prize Payout Impact

Although the prize payout has increased in the last few years, there has been no negative effect on sales. On the contrary, sales have increased. In FY 02, the prize payout was 56.61%; sales were \$427.6 million. Last year the prize payout was 59.12%; sales were \$473.4 million.

Increasing the prize payout in recent years has had no significant impact on Lottery expenses. Operating expenses were \$31,837,689 (estimated) in FY 09. This was a decrease from the previous year. The Lottery’s operating costs remain low. In FY 09 the Lottery’s administrative costs were 6.72% of sales, well below the 10% cap set by state statute. Moreover, the Wisconsin Lottery continues to be one of the most efficient lotteries in the country. The Lottery’s per capita expenses are the seventh lowest in the country (Exhibit1).

### Conclusion and Recommendation

For FY 11, the Lottery recommends an overall prize payout of 58.75%, slightly below the payout of 59.12% in FY 09 and the projected payout of 58.80% in FY 10.

Lottery ticket sales will show a modest increase in FY 10, as the impact of the recession continues. Increasing the prize payout in recent years has had no significant impact on Lottery expenses. The Lottery continues to be conservative in its use of prize payouts and will achieve its sales goals with only slight adjustments to its current prize payout percentages. Instant game prize payout, which was increased to sustain the successful higher price point strategy at the \$10 and \$20 levels, will be maintained. Total lotto game prize payout will also be maintained at current levels.<sup>5</sup>

<sup>4</sup> LaFleur’s 2009 World Lottery Almanac. FY 08 is the latest year for which national prize payout averages are available.

<sup>5</sup> Although prize payouts have increased in recent years, the Wisconsin Lottery’s prize payout ratios remain below lottery industry averages. See Table 7 and LaFleur’s 2009 World Lottery Almanac.



## WISCONSIN LOTTERY PRIZE PAYOUT REPORT 2010

### LOTTERY SALES

Lottery sales were \$473.4 million in FY 09. The economic downturn and a lack of strong Powerball jackpot runs resulted in a 4.3% decrease in sales from the previous year.

Gross revenues for FY 10 are expected to increase 1.2% to \$479.4 million, in spite of the continuing recession. Flat sales are anticipated for FY 11; sales are projected to be \$481.9 million, an increase of 0.5%.

Sales by game type for the past three years and projected sales for the next two years are shown on Table 1.

**Table 1. Ticket Sales by Fiscal Year and Game Type\***

Game Type	FY 07 Sales Audited	FY 08 Sales Unaudited	FY 09 Sales Unaudited	FY 10 Sales Projection	FY 11 Sales Projection
Instant Scratch	\$280,200,341	\$280,255,001	\$271,901,512	\$273,910,257	\$273,910,257
Pulltab	\$4,090,789	\$3,174,284	\$4,896,196	\$4,777,695	\$4,777,695
Lotto	\$208,646,840	\$207,297,783	\$196,616,546	\$200,733,562	\$203,249,439
Total	\$492,937,970	\$494,727,068	\$473,414,254	\$479,421,514	\$481,937,391

\*Sources: 12/15/09 WISMART data

### TOTAL PRIZE PAYOUT AND PRIZES PAID OR EXPECTED TO BE PAID

Wisconsin law requires that at least 50% of Lottery gross sales be returned to players as prize payments (sec. 25.75(3)(a), Wis. Stats). In FY 09, 59.12% of Lottery gross sales were returned to players as prize payments. The Lottery projects its total prize payout for all products in FY 10 to decrease to 58.80%.

In FY 11, the Lottery's prize payout for all game categories is projected to decrease slightly to 58.75%. The prize payout for Wisconsin Lottery games will remain below the industry average.

### Scratch Ticket Prize Payout

The Lottery's scratch product prize payout was 63.44% in FY 09, which was 0.44% lower than the payout percentage projected in the 2009 Prize Payout Report. The Lottery plans to maintain payouts of 64.88% in FY 10 and FY 11. This payout percentage will allow the Lottery to continue its strategy of offering an expanded variety of higher price point tickets. The success of \$20, \$15 and \$10 scratch games has demonstrated the benefits of such a strategy. The \$10, \$15 and \$20 scratch products accounted for more than 23% of weekly scratch sales in FY 09, up from 20% in FY 08.

The lower than anticipated payout percentage in FY 09 was due primarily to savings realized through the discontinuation of GLEPS discounting of instant games to retailers. Under this old practice, the cost of the Guaranteed Low End Prize Structure (GLEPS) prizes was discounted up-front from the cost of a pack of tickets that retailers paid to the Lottery. The estimated return that has resulted from the discontinuation of GLEPS scratch ticket discounting is estimated at .7% of sales, or a net prize expense savings of \$1,306,100 in the first year after implementation. This is primarily due to the fact that not 100% of GLEPS prizes are claimed by players. The Lottery is no longer paying for these unclaimed prizes in the form of GLEPS discounting.



The Lottery estimates that the trend towards stronger sales of high price point (higher prize payout) games combined with the savings due to the discontinuation of GLEPS discounting will allow the Lottery to stay within the 64.88% payout percentage previously approved.

The actual percentage of prizes paid for individual scratch games may be more than the planned payout. This can occur when sales of a particular game are discontinued before all the tickets are sold, as is done when the last top prize is claimed. Sales of games with drawing prizes may also accrue in one fiscal year, while the prizes are drawn and awarded in the following year.

#### **Pulltab Prize Payout**

Prize payout for pulltab tickets averaged 62.17% in FY 09. This was a drop from previous years and tied to additional sales of a \$2 cross-validated game. Payout rates are anticipated to return to FY 07 and FY 08 levels in FY 10 and FY 11.

#### **Lotto Prize Payout**

It is difficult to project the prize payout of lotto games because, unlike scratch and pulltab games, they normally do not have a set number of winners. The number of winners and the amount of the prizes won occur randomly. The overall lotto game payout is anticipated to be 50.39% for FY 10 and FY 11.

The average prize payout percentages by game type for the past three years and the estimated prize payout percentages for the next two fiscal years are shown in Table 2. A weighted average is used to accurately reflect the performance of games with higher sales.

**Table 2. Weighted Average Prize Payout Percentages by Fiscal Year and by Game Type\***  
(Percentages are rounded)

Game Type	FY 07 Prize Payout	FY 08 Prize Payout	FY 09 Prize Payout	FY 10 Prize Payout Projection	FY 11 Prize Payout Projection
Instant Scratch	64.52%	64.86%	64.33%	64.88%	64.88%
Pulltab	63.46%	63.46%	62.17%	63.46%	63.46%
Lotto	52.16%	48.39%	51.76%	50.39%	50.39%
Total	59.28%	57.95%	59.12%	58.80%	58.75%

\* Data in Tables 1 and 2 have been rounded and may not exactly match data in Table 3

Table 3 shows prizes paid during the past three fiscal years and prizes expected to be paid in the next two fiscal years. Prizes expected to be paid in FY 10 and FY 11 are calculated by multiplying the sales projection for each game by its prize payout percentage.

**Table 3. Prizes Paid or Expected to be Paid by Fiscal Year and by Game Type\***

Game Type	FY 07** Prizes Paid (Audited)	FY 08 Prizes Paid (Unaudited)	FY 09 Prizes Paid (Unaudited)	FY 10 Projected Prizes	FY 11 Projected Prizes
Instant Scratch	\$180,683,147	\$184,376,333	\$174,922,499	\$177,712,975	\$177,712,975
Pulltab	\$2,596,186	\$2,014,513	\$3,043,774	\$3,031,925	\$3,031,925
Lotto	\$108,835,614	\$100,309,477	\$101,768,329	\$101,149,642	\$102,417,392
Total***	\$292,114,947	\$286,700,323	\$279,884,602	\$281,894,542	\$283,162,292

\*Prize amounts shown are based upon the accrual method. In certain situations (e.g. merchandise prizes), prizes are paid for in advance (to the merchandise vendor). These advanced costs may create a transitory situation during which prize payout appears to be higher than it actually is. The accrual method reflects prizes as they are paid out to the players and is consistent with generally accepted accounting principles (GAAP).

\*\*Rounded to nearest dollar.

\*\*\*Projected totals for FY 10 and FY 11 are related to the sales values certified in October 2009.

### PRIZE PAYOUT IMPACT ON REVENUES, EXPENSES AND PROPERTY TAX RELIEF

Setting the proper prize payout is complicated. Set the payout too low and players will not play. (This is especially true at the higher price points where players demand a greater reward for the risk they take.) Set the payout too high and lower profits may result. The Lottery has been very conservative in its use of prize payout to drive sales, with positive results. In FY 02 the prize payout was 56.61%; in FY 08 it was 57.95%. During the same period, sales rose from \$427.6 million to \$494.7 million. Net operating income went from \$121.8 million to \$141.1 million. Since then, the Lottery has carefully managed payout in an effort to maximize net operating income.

### Instant Scratch Market Trends and Prize Payout

Despite some fluctuations from year to year, and more recently, the uncertain economic environment in which the Lottery operates, scratch game sales remain firm. Scratch sales have increased from \$263.0 million in FY 05 to \$271.9 million in FY 09. The FY 09 sales figure represents a 4.3% decline from FY 08 primarily due to a troubled and uncertain economy. The Lottery projects instant sales in FY 10 to rebound modestly to \$273.9 million. The increase can largely be attributed to the Lottery's strategy of meeting increased player demand for higher price point scratch tickets.

The Lottery has been able to generate increases in instant scratch sales in recent years by responding to consumer demands for higher price point tickets with higher top prizes, better overall odds of winning and a higher payout. Players see increased entertainment value in a higher risk-reward proposition. This strategy is consistent with the industry strategy of offering more in prizes as a player risks more in the purchase price of a ticket. Additionally, the Lottery has been able to leverage the popular Crossword playstyle at higher price points, including at \$10, which offers even greater extended-play value and more appealing prizes to the player. While all price points have been impacted in the current fiscal year, the higher price points seem to be weathering the storm better than the lower price





points. In FY 09, 23.1% of scratch sales occurred at \$10 and up, compared to 19.9% in FY 08. In addition to successfully positioning higher price point games, the Lottery continues to maintain a strong market presence at the \$2 and \$3 price points (Table 4).

The \$10 Crossword game generated significant incremental sales during its 26-week sales timeframe. Average weekly sales of \$10 tickets were \$751,097 while Crossword was available, compared to \$525,450 per week during the 26-weeks prior to the launch of Crossword. This represents a 43% increase in sales of \$10 tickets while the \$10 crossword was available. The Lottery proposes maintaining a third \$10 game available at all times to meet this player demand and generate additional profits for property tax relief.

**Table 4. Percentage of Total Net Sales by Price Point**

Price Point	FY 06 % of Total Net Sales	FY 07 % of Total Net Sales	FY 08 % of Total Net Sales	FY09 % of Total Net Sales	FY10 YTD % of Total Net Sales**
\$1	16.1%	13.8%	11.5%	11.1%	10.5%
\$2	26.9%	25.2%	23.0%	21.9%	21.8%
\$3	15.0%	15.8%	16.8%	14.9%	14.5%
\$5	23.4%	26.7%	28.9%	28.9%	26.9%
\$10	9.3%	8.8%	9.7%	11.8%	12.9%
\$15	--	--	--	1.5%*	3.0%***
\$20	9.3%	9.7%	10.2%	9.8%	10.3%

Note: Percentages may not sum to 100% due to rounding.

\* \$15 Price point is a seasonal (holiday) game

\*\* Through December 19, 2009

\*\*\* Seasonal game

Ten years ago, 12 of the Lottery's 43 instant scratch games were higher price point games (greater than \$1). In FY 10 the Lottery anticipates introducing 64 new games: 15 at \$1 and 49 at higher price points (Table 5). While the payout percentage declined in FY 09 to 64.33%, the overall instant scratch prize payout in FY 10 is projected to increase slightly to 64.88% of sales due to strong sales at higher price points. In FY 11, the Lottery projects instant scratch prize payout to remain stable at 64.88% of sales.

**Table 5. Historical Perspective: Number of New Game Launches**

Price Point	FY 00 Number of Games	FY 07 Number of Games	FY 08 Number of Games	FY 09 Number of Games	FY 10 Number of Games	FY 11 Anticipated No. of Games*
\$1	31	18	18	16	15	15
\$2	9	17	20	17	15	15
\$3	0	13	14	11	13	13
\$5	3	13	12	14	13	13
\$10	0	4	4	5	6	6
\$15	0	0	0	1	1	TBD
\$20	0	2	2	1	2	2
Total Number of Games	43	67	70	65	65	64
Average Prize Payout	62.84%	64.51%	64.86%	64.33%	64.88%	64.88%

\*From Launch Schedule 1/5/10



Although the trend in Wisconsin and nationally is away from the \$1 price point, the \$1 ticket has the greatest profit margin of any instant ticket. Consequently, the Lottery plans to introduce a sufficient number of lower price point games to meet player demand and keep the games fresh and exciting (Table 6). Furthermore, the Lottery plans to continue a launch strategy including a seasonally-themed \$1 ticket which will feature four seasonally themed games, each to be automatically shipped to retailers before the respective season or holiday.

**Table 6. Wisconsin Lottery's Plan for Fiscal Year 2011**

Price Point	Number of Scratch Games	Average Prize Payout Rate
\$1	15	59.00%
\$2	15	62.00%
\$3	13	63.00%
\$5	13	64.50%
\$10	6	70.0%
\$15	TBD	72.00%
\$20	2	74.00%
Average Total Prize Payout	--	64.88%

The Lottery will respond to consumer demand by offering three \$10 games on the market at any given time, one more than it has historically offered. Consumer demand for these games is strong. As a result, Lottery sales and revenues for property tax relief have benefited.

The Wisconsin Lottery's planned prize payout remains lower than the lottery industry's average at each price point, with the exception of \$20. There, Wisconsin is just 0.2% above the national average (Table 7). Average instant payout rates in the industry have held fairly stable overall during the past year. The average overall instant prize payout for U.S. lottery jurisdictions was 66.8% in FY 09. The Wisconsin Lottery payout in FY 09 was 64.33%.

**Table 7. Average Payout Rate by Price Point**

Price Point	U.S. Lotteries' FY 10 Average Payout Rate by Price Point*	Wisconsin's FY 10 Plan
\$1	60.4%	59.0%
\$2	64.4%	62.0%
\$3	65.6%	63.0%
\$5	68.4%	64.5%
\$10	71.9%	70.0%
\$20	73.8%	74.0%
\$30	74.0%	NA

\*Source: La Fleur's Magazine, July/August, 2009



The number of Wisconsin Lottery game launches is slightly higher than the industry average for lower price point games and average for higher priced games (Table 8). Wisconsin launches over three times the national average (based on FY 09 data) of \$3 games primarily because we have a very strong player-base for extended-play games (such as crossword, bingo, and licensed-property games) which are typically offered at the \$3 price point. While the industry trend is to emphasize new, higher price point product offerings, the Lottery believes it can continue to generate significant tax relief from the careful development and launch of lower price point tickets, which have higher profit margins.

**Table 8. Average Number of Games**

Price Point	U.S. Lotteries' Average Number of Games FY 09*	Wisconsin Lottery's Plan FY 11
\$1	15	15
\$2	16	15
\$3	4	13
\$5	12	13
\$10	4	6
\$15	0	TBD
\$20	2	2
Total Number of Games	53	64

\*Source: La Fleur's Magazine, July/August, 2009

#### **Pulltab Market Trends and Prize Payout**

Wisconsin Lottery pulltab ticket sales increased \$1.7 million in FY 09. Total sales were \$4.9 million in FY 09 and \$3.1 million in FY 08. For-profit retailer sales were \$3.2 million in FY 09 and \$1.3 million in FY 08. Not-for-profit retailer sales were \$1.7 million in FY 09 and \$1.8 million in FY 08.

Validation coded pulltab tickets accounted for 58% of FY 09 pulltab sales. Standard pulltab tickets accounted for 42% of FY 09 pulltab sales. Validation coded pulltab tickets were first introduced to for-profit retailers in FY 05 and are a more sophisticated product. They can be validated and cashed at any Lottery retail location. Validation coded pulltab sales are expected to increase slightly in FY 10 with the introduction of a \$1 ticket. Prior to FY 10 only \$2 validation coded pulltabs have been sold. Standard pulltab ticket sales are expected to decrease slightly in FY 10.

Total pulltab sales will not increase in the foreseeable future unless judicial or legislative remedies occur to reduce or stop pulltab sales by private vendors operating illegally or under sec.100.16(2), Wis.Stats. Private vendors are unregulated and are not concerned with generating the high profit margins necessary to maximize property tax relief. Consequently, they can offer a similar product with a higher commission for retailers. At one time, when the Lottery was the exclusive vendor of pulltabs in the state, the Lottery had annual pulltab sales over \$20 million. The Lottery's market share has been eroded by competition from private vendors operating illegally or under an exception in sec.100.16(2), Wis. Stats. designed to allow limited-term games of chance by retailers (e.g. McDonald's Monopoly game).<sup>6</sup>

<sup>6</sup>For additional discussion of this issue see the November 2008 audit of the Lottery conducted by the Legislative Audit Bureau, Report 08-13, pp. 22-24.



The Wisconsin Lottery continues to investigate ways to assist for-profit retailers and nonprofit organizations in their pulltab sales. No significant changes are planned for pulltab prize payout ratios.

#### Lotto Game Market Trends and Prize Payout

The prize payout ratios for lotto games averaged 51.76% in FY 09, ranging from 45.22% (Daily Pick 4) to 67.33% (SuperCash!). Table 9 lists the lotto games and associated designed prize payouts that are currently offered in Wisconsin. Actual prizes paid, as a percentage of sales, may be less than the designed prize payout for several reasons, such as winners not claiming their prizes. Prizes paid, as a percentage of sales, may also be more than the designed prize payout due to the random nature of game drawings. This is the reason for the high prize payout for the SuperCash! game in FY 09.

**Table 9. Lotto Games and Corresponding Start Dates and Prize Payout Rates\***

Lotto Games	Start Date	Designed Payout*
Powerball	4/19/92	Approx. 50.00%
Wisconsin's Very Own Megabucks	6/18/92	53.50%
SuperCash!	2/4/91	52.8%
Daily Pick 4	9/15/97	Approx. 48.40%
Daily Pick 3	9/21/92	48.20%
Badger 5	2/17/03	50.00%
Mega Millions	1/31/10	50.00%
Special Draw**	3/4/07	50.00%

\* Reflects anticipated rate based on game design

\*\*No Special Draw game was offered in FY 09.

Traditionally, the prize payout for lotto games has been lower than that for instant scratch games. The primary appeal of the lotto games is the chance to win larger prizes, including large jackpot prizes. Most of the products in the Wisconsin Lottery lotto game offering are stable sellers.

According to the Wisconsin Lottery 2009 Segmentation Study, lotto games in Wisconsin are more likely to be purchased as a matter of routine than instant games. The primary elements of the lotto game strategy continue as in the last several years to be: 1) to refresh or offer additional value on current games through permanent game changes and limited time offers, 2) to support play by offering greater frequency of wins on games with lower top prizes, thereby increasing the number of prizes awarded and 3) offer new products when possible and profitable. The Lottery continues to develop this strategy in an effort to strengthen the overall game mix into FY 11.

In January 2010, the Wisconsin Lottery introduced a second multi-state jackpot game, Mega Millions. It is anticipated this new product will offer more opportunities for record jackpots which drive sales, as Powerball has not produced as many of these jackpots in recent years.

Limited-time offers have continued to be successful when employed in order to maintain product freshness without having to expend the amount of time, effort and budget that is needed to launch a new game. While some of these offers may change the prize payout on a small scale during the period of the offer, their overall effect on the prize payout for the game is minimal and closely monitored. The goal remains to increase sales by a large enough margin to more than offset the cost of the prize payout of the offer and generate additional property tax relief. Each limited time offer has been



carefully considered and the anticipated effects on the prize payout reviewed before and after implementation.

Recent overall payout for Wisconsin Lottery lotto games is below the national average. For FY 08, the payout was 48.39%, compared to the average of 50.61% for all U.S. lotteries.<sup>7</sup> The Lottery believes it can manage the lotto product line at this time without a significant change to prize payout in the coming fiscal year. The Lottery expects the addition of Mega Millions will further bring Wisconsin's payout closer to 50%.

### **Impact of Prize Payout on Operating Costs**

Prize payout has had little effect on operating costs. Gross revenues decreased in FY 09 to \$473,414,254 from \$494,727,068 in FY 08, a reflection of the economy as a whole. Total administrative expenditures as determined in accordance with sec. 25.75(3)(b), Wis. Stats. in FY 08 and FY 09 were \$32,876,275 (unaudited) and \$31,837,689 (preliminary), respectively. These amounts represent 6.63% of gross lottery revenues for FY 08 and 6.72% of gross lottery revenues for FY 09. Amounts for both years are well within the 10% limitation set by Section 25.75(3)(b), Wis. Stats.

Furthermore, the Wisconsin Lottery continues to operate at efficient levels relative to other jurisdictions. As illustrated by Exhibit 1, per capita expenses in Wisconsin are the seventh lowest among 43 United States lotteries. This is a better operating efficiency on a per capita basis than all other Mid-western states, with the exception of North Dakota.<sup>8</sup>

### **SUMMARY AND RECOMMENDATION**

The Wisconsin Lottery continues to improve its game mix in all product categories. Consistent with national trends, the introduction of higher price points to the instant scratch game mix has proved to be a successful strategy. The Lottery will continue to emphasize new higher price point product offerings.

Lotto game sales are anticipated to increase in FY 10. Steady sales of daily lotto games are expected to continue through FY 11. Lotto products will continue to be refreshed through the use of limited time offers.

For FY 11, the Lottery recommends an overall prize payout of 58.75%, slightly below the payout of 59.12% in FY 09 and the projected payout of 58.80% in FY 10.

For FY 11, the Lottery recommends instant scratch prize payout at 64.88% in order to accommodate consumer demand for a variety of \$5, \$10 and \$20 tickets at all times. Pulltab payout will return to levels set prior to FY 09. Lotto game payout is also not expected to change significantly.

The long term positive sales trend in the instant scratch product line can be attributed to the recent increase in prize payout. Despite the current economic downturn, the Lottery is confident that sales will stabilize in FY 11. The Lottery continues to work diligently to maximize funds available for property tax relief. The proposed prize payouts will result in significant revenues for that purpose.

<sup>7</sup> LaFleur's 2009 World Lottery Almanac.

<sup>8</sup> The North Dakota Lottery only offers multi-state lotto games.



Exhibit 1

Fiscal 2008 U.S. Lottery Per Capita Administrative Expenses

	Lottery	Pop. 1 (Mil) <sup>1</sup>	Expense <sup>2</sup>	Expense Per Cap
1.	W. Virginia	1.8	7.72	4.26
2.	Oklahoma	3.6	15.85	4.38
3.	California	36.6	167.22	4.57
4.	N. Carolina	9.1	45.79	5.05
5.	Arizona	6.3	35.78	5.64
6.	N. Dakota	0.6	3.70	5.82
7.	Wisconsin	5.6	32.81	5.86
8.	Washington	6.5	43.52	6.73
9.	Colorado	4.9	33.02	6.79
10.	Texas	23.9	167.50	7.01
11.	S. Dakota	0.8	5.58	7.01
12.	Missouri	5.9	41.87	7.12
13.	Louisiana	4.3	31.21	7.27
14.	Oregon	3.7	27.53	7.35
15.	Minnesota	5.2	39.49	7.60
16.	Montana	1.0	7.47	7.80
17.	Indiana	6.3	50.07	7.89
18.	Idaho	1.5	12.41	8.28
19.	Nebraska	1.8	15.00	8.45
20.	Tennessee	6.2	52.10	8.46
21.	Florida	18.3	154.56	8.47
22.	Illinois	12.9	108.99	8.48
23.	New Mexico	2.0	17.23	8.75
24.	Kansas	2.8	24.48	8.82
25.	New Jersey	8.7	78.05	8.99
26.	R. Island	1.1	9.71	9.18
27.	Virginia	7.7	73.68	9.55
28.	S. Carolina	4.4	42.22	9.58
29.	Ohio	11.5	110.28	9.62
30.	Maryland	5.6	58.85	10.48
31.	Iowa	3.0	31.68	10.60
32.	Michigan	10.1	110.40	10.96
33.	Kentucky	4.2	46.50	10.96
34.	Pennsylvania	12.4	159.96	12.87
35.	New York	19.3	253.03	13.11
36.	N. Hampshire	1.3	17.33	13.17
37.	Vermont	0.6	8.87	14.28
38.	Georgia	9.5	137.33	14.39
39.	Connecticut	3.5	50.63	14.46
40.	Maine	1.3	19.32	14.67
41.	Massachusetts	6.4	101.38	15.72
42.	Delaware	0.9	13.84	16.00
43.	D.C.	0.6	32.14	54.66
	Average			8.80

Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30).

<sup>1</sup> Source: U.S. Census Bureau;

<sup>2</sup> Traditional lottery expenses only;

Source: La Fleurs 2009 World Lottery Almanac

